

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 PM-07 NSC-10 SS-15 RSC-01

CIAE-00 INR-10 NSAE-00 DODE-00 L-03 MC-02 OMB-01

TRSE-00 DOTE-00 COME-00 RSR-01 /087 W

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R 311731Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3713

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

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E.O. 11652: N/A

TAGS: ETRN, UK

SUBJECT: HAWKER-SIDDELEY 146 PROJECT APPROVED

REF: LONDON 7207

1. BRITISH GOVERNMENT HAS ANNOUNCED AGREEMENT WITH HAWKER-SIDDELEY (HS) ON TERMS OF GOVERNMENT INVESTMENT IN HS-146 PROJECT. AGREEMENT ON LAUNCHING ASSISTANCE MEANS PROJECT WILL NOW GO FORWARD. FIRST FLIGHT IS SET FOR LATE 1975 OR EARLY 1976 AND AIRCRAFT EXPECTED TO ENTER AIRLINE SERVICE EARLY 1977. AIRCRAFT, WHICH IS TO USE FOUR US AVCO-LYCOMING ALF-502H JET ENGINES, WILL BE BUILT IN TWO VERSIONS, ONE SEATING 71-88 PASSENGERS AND THE OTHER, WITH STRETCHED FUSILAGE, CARRYING UP TO 102 PASSENGERS. HS-146 WILL FLY AT 500 MPH OVER DISTANCES OF 1,200 MILES AND WILL BE ABLE OPERATE OFF GRASS FIELDS 3,600 FEET LONG. AIRCRAFT IS DESIGNED PROVIDE LOW NOISE FEEDER-LINE SERVICE TO MANY COMMUNITIES EITHER NOT PREVIOUSLY SERVED OR SERVED ONLY BY PISTON OR TURBO-PROP AIRCRAFT. HS HOPES TO SELL 400 AIRCRAFT THROUGHOUT THE WORLD BY MID 1980'S.

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2. GOVERNMENT CONTRIBUTION TO PROJECT, DESCRIBED AS "RISK-SHARING INVESTMENT" RATHER THAN LAUNCHING AID, IS FIXED AT 46 MILLION POUNDS IN CURRENT PRICES AND WILL RISE ONLY INSO FAR AS PRICE LEVELS INCREASE. ANY COST OVER-RUNS ARE TO BE BORNE BY HS. GOVERNMENT FUNDS ARE TO BE RECOVERED FROM LEVY ON SALES OF FIRST 350 AIRCRAFT PRODUCED. GOVERNMENT SAYS IT EXPECTS TO OBTAIN A DIS-COUNTED CASH FLOW RETURN OF 10 PERCENT ON ITS INVESTMENT.

3. WE UNDERSTAND THAT GOVERNMENT HAD ACCEPTED EARLY THIS YEAR PROPOSITION THAT HS-146 IS AN ECONOMICALLY VIABLE PROJECT BUT BUDGETARY RESTRAINTS AND WIDESPREAD CRITICISM ABOUT TAXPAYERS' MONEY BEING ABSORBED IN LARGE AEROSPACE PROJECTS, NOTABLY CONCORDE AND ROLLS-ROYCE RB-211 PROGRAM, HAVE FORCED GOVERNMENT INTO EXTREMELY HARD-BARGAINING WITH HS. ON OTHER HAND, EquALLY IMPORTANT CONSIDERATION HAS BEEN FACT THAT ALTHOUGH UK AEROSPACE EXPORTS ARE AT RECORD LEVELS, GREAT BULK OF THESE EXPORTS FLOW FROM OLD PROJECTS WHICH SOON WILL START TO PHASE OUT AND UK AEROSPACE INDUSTRY DESPARATELY NEEDS NEW PROJECTS, SUCH AS HS-146 TO KEEP INDUSTRY HEALTHY IN LATTER PART OF 1970'S. WE BELIEVE THIS FACTOR HAD IMPORTANT BEARING ON GOVERNMENT DECISION TO SUPPORT HS-146 PROJECT.

4. IN REACHING DECISION, UK HAD TO OVERCOME STRONG OBJECTIONS OF DUTCH AND, TO LESSER EXTENT, GERMANS BECAUSE HS-146 WILL COMPETE WITH F-28 AND VFW-614. SIMILARLY, UK FINDS ITSELF SOMEWHAT EMBARRASSED BY FACT THAT HS-146 DOES NOT HAVE EUROPEAN COLLABORATOR DESPITE STRIDENT CALL BY UK MINISTER OF AEROSPACE HESELTINE FOR INTEGRATION OF EUROPEAN AEROSPACE INDUSTRY. GOVERNMENT PUT CONSIDERABLE PRESSURE ON HS TO TAKE ON A EUROPEAN PARTNER BUT HS, WHICH IS A HARD-NOSED, EFFICIENT ORGANIZATION, REFUSED TO GIVE UP ANY CONTROL OVER 146 PROJECT AND INSISTED THAT EUROPEAN PARTICIPATION WOULD BE WELCOME BUT ACCEPTABLE ONLY TO EXTENT EUROPEAN CONTRIBUTIONS COMMERCIALLY COMPETITIVE. TO ATTEMPT HEAD-OFF EUROPEAN CRITICISM OF BRITISH GOVERNMENT SUPPORT FOR WHAT IS ESSENTIALLY A NATIONAL PROJECT WHICH MAY HURT EUROPEAN

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COMPETITORS, UK IS STRESSING THAT IT IS MERELY TAKING A PIECE OF THE ACTION ON WHAT IS A STRAIGHTFORWARD COMMERCIAL VENTURE.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 31 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: worrelsw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LONDON10034
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973083/aaaaabun.tel
Line Count: 112
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: LONDON 7207
Review Action: RELEASED, APPROVED
Review Authority: worrelsw
Review Comment: n/a
Review Content Flags:
Review Date: 08 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08-Aug-2001 by willialc>; APPROVED <16-Aug-2001 by worrelsw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: HAWKER-SIDDELEY 146 PROJECT APPROVED
TAGS: ETRN, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005